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S E C R E T SECTION 01 OF 03 VIENNA 000856

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DEPT FOR EUR/AGS (SAINT ANDRE) AND ISN/CPI (NEW)
TREASURY FOR LEVEY, O'BRIEN, HAMMERLE, AND EDDY

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TAGS: [EFIN](#) [KTFN](#) [PREL](#) [ECON](#) [AU](#)
SUBJECT: TREASURY A/S PATRICK O'BRIEN'S DISCUSSIONS WITH
AUSTRIA ON UNSCR 1737

REF: A) VIENNA 626 B) VIENNA 3173 (2006) AND PREVIOUS

Classified By: Charge d'Affaires Scott F. Kilner. Reasons 1.4 (b) and (d).

Summary

1. (U) On March 14, Treasury Assistant Secretary Patrick O'Brien led a delegation to Vienna to meet with officials at the Austrian Ministry of Finance, Ministry of European and International Affairs (formerly the Ministry of Foreign Affairs), Bank Austria Creditanstalt (BACA), and Raiffeisen Zentral Bank (RZB) to discuss how the U.S. is now implementing UNSCR 1737 and the risk of doing business with Iran and the DPRK. O'Brien urged Austrian government officials to strongly enforce 1737. He encouraged both the government and banking officials to take a robust view of 1737 by exercising scrutiny when considering export credit guarantees and other business with Iranian entities, especially those owned and controlled by 1737-designees. He encouraged the GOA to propose its own additions to the EU's new Annex 2, including private entities and individuals involved in WMD proliferation. Across the board, GOA and bank officials strongly support the international position on Iran and maintain that Austria will fully enforce 1737, but remain firm against cutting Austria's historical and "legitimate" trade ties with Iran.

2. (U) A/S O'Brien's delegation included Barbara Hammerle, Deputy Director of the Office of Foreign Asset Controls (OFAC); Colleen Eddy, Policy Advisor, Office of Terrorist Finance and Financial Crime; Michelle O'Lear, Supervisory Sanction Investigator, OFAC; and Michelle New from State's Bureau of International Security and Nonproliferation.

Ministry of Finance (MOF)

3. (S) O'Brien met with Thomas Wieser, the Director General of the MOF's Economic Policy and Financial Markets Division and with Johann Kinast, the director of the MOF's Export Guarantees and Debt Rescheduling Division. Wieser said the MOF is only a "passive recipient" of the 1737 Annex and has no input into what entities go on either UN or EU lists. O'Brien explained that the MOF may hear or receive useful information about the conduct of Iranian entities, which it could raise for further discussion in the EU. He presented a non-paper to the MOF on the Austrian firm Daniel Frosch Export (DFE), which supplied controlled technology for the Iranian WMD program, as an example. O'Brien pointed out that the DFE case involves entities with close ties to 1737 designees and added that the USG understands that the

Austrian authorities are already investigating these ties. (COMMENT: The Ministry of Economics and Labor and the Ministry of Interior, along with U.S. authorities, are actively investigating Daniel Frosch Export. See Reftels. END COMMENT.) O'Brien added that deceptive banking practices by some Iranian entities also make it difficult to discern their conduct.

14. (S) Wieser was unfamiliar with the Daniel Frosch case. Regarding expansion of 1737, he asked if the U.S. intention was to cut off all Iranian financial institutions. He said it would be impossible for the MOF to put pressure on Austrian banks to force them to cut off ties with all Iranian entities not included on the UN's list. The international community, Wieser said, shares the U.S.'s concerns, and he mentioned that exports and planned exports from Austria to Iran have dropped by 50 percent. Kinast underscored that Austria does not allow military or controlled exports to Iran. Wieser said that the GOA will continue to vigorously enforce sanctions against whomever is on the 1737 or EU lists and will continue to work with the private sector on risk management. However, he said there is no legal means or political will to impose a total ban on commercial, non-military trade and banking activities with Iran.

Ministry of European and International Affairs (MEIA)

15. (S) A/S O'Brien also met the following officials from the Ministry of European and International Affairs: Ralph Scheide, Director of the Middle East and Africa Division; Helmut Tichy, Chief Legal Counsel and Head of the International Law Department; Thomas-Michael Baier, Head of the Office of Multilateral Issues and International Law;

VIENNA 00000856 002 OF 003

Karin Fichtinger-Grohe, Head of the Bi- and Multilateral Office for Economic Relations with North and South America; and Franz Josef Kuglitsch, Acting Director of the ministry's Middle East office. O'Brien discussed how the U.S. is fulfilling its responsibilities under 1737 (e.g. actions taken against Bank Sepah and Bank Saderat) and how Treasury/OFAC is handling Iranian entities not on the 1737 list. O'Brien also presented MEIA with a non-paper on Daniel Frosch Export. He commended Austrian authorities for their investigation of the case and urged Austria to consider designating Frosch using the new EU authority made available by Annex 2 of the Common Position on UNSCR 1737. Scheide said that there is no difference in the general approach of the U.S. and EU on Iran. The issue, he said, is not the West against Iran, but is about stopping nuclear proliferation. It was very important, he added, that 1737 was adopted with unanimity in the UNSC and that the political process to address Iran's proliferation-related aspirations moves on. According to Scheide, there are currently no entities listed in the EU's new Annex 2. Discussions among the Member States are still taking place in Brussels, and the European Commission will probably write a proposal on how to proceed on Annex 2, he said.

Bank Austria Creditanstalt (BACA)
and Raiffeisen Zentral Bank (RZB)

16. (C) O'Brien met with BACA Managing Director Peter Tschoep; Herbert Preis, Head of Group Fraud Prevention and

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Investigations; Senior Regional Manager Reinhard Wind; and Herbert Pichler of the Managing Board and the Head of its Legal Department. In a separate meeting, he had discussions at RZB with Managing Board Member Patrick Butler; General Counsel Friedrich Sommer; and Peter Paul Prebil, the Head of RZB's Legal and Compliance Department. During both meetings, O'Brien explained U.S. actions against the Iranian banks Sepah and Saderat and continuing vigilance by the U.S.

against North Korean entities of concern. He urged both banks to scrutinize the conduct of Iranian financial institutions, especially those that strip information from their banking transactions.

¶7. (C) BACA officials said that after the last visit of Treasury U/S Stuart Levey to BACA, they reduced their overall exposure in Iran by three-quarters in twelve months and also decreased the size of Iranian transactions. The BACA officials added that, currently, 80 percent of its business with Iran relates to paper and pharmaceutical exports, so the bank feels confident that the large part of its business exposure to Iran follows the legitimate pattern of Austria's trade with Iran. According to BACA, Austria only provides export guarantees for short-term projects in Iran. BACA officials admitted that Bank Sepah once had a dollar account with them, but BACA closed this account following the U.S. action against the bank in January 2007. The BACA representatives explained that they have taken other precautionary measures regarding Iranian business and requested that the U.S. share any information it has on Iranian entities of concern. RZB officials added that they have a robust due diligence process in place, which has resulted in the cancellation of WMD-related transactions, including one involving U.S. material. RZB also said that in 2006, it identified 77 OFAC cases and subsequently rejected 22 cases, which it reported as suspicious. Since May 2001, RZB said it has not had any OFAC violations.

¶8. (C) Both BACA and RZB officials said that they are not taking any new Iranian business, nor are they expanding their business activities in Iran. However, both continue to issue documentary credits to long-standing customers doing business in Iran. The BACA and RZB officials said they look forward to participating in future banking workshops sponsored by the U.S. and found past workshops to be very useful.

Comment

¶9. (C) The GOA remains active and efficient on implementing sanctions against entities designated by the UN or the EU, but is currently stuck in a "passive recipient" mode as far as identifying and proposing new financial entities for sanctions consideration is concerned. A/S O'Brien's visit and previous visits by Treasury and DOS officials have been extremely useful in Post's efforts to help the MOF and MEIA better understand and define their international role in

VIENNA 00000856 003 OF 003

fighting terrorist financing. Post will continue to engage the GOA regarding its views and role in shaping discussions in Brussels on Annex 2 and encourage Austria to put forward entities for consideration in Annex 2. Post will continue working with the GOA to improve the private banking sector's understanding of and compliance with international financial sanctions, and will continue to engage the private banking on their due diligence procedures.

¶10. (U) Treasury Assistant Secretary Patrick O'Brien cleared this cable.
Kilner